

Background

Under the former command-style economy, goods and services were procured by plan rather than according to market forces. Regional and municipal government procurements frequently still follow previous arrangements. The traditional practice in the region (oblast) of Taldy-Korgan (population 717,000) had been to purchase coal for oblast and city departments on an “as and when needed” basis. As a result, during 1995 the prices paid by the local government for coal were high, ranging from \$20 to \$25 per ton. In April 1996 the Deputy Mayor of the City of Taldy-Korgan (population 136,400) decided to reform this process by carrying out a competitive procurement of coal to demonstrate that local government could achieve significant savings over its customary procurement arrangements. In addition, the practice aimed to impart skills in bidding, advertising, pre-bid conferences, and tender evaluation and award, so that the procurement would be conducted in a fair, open manner and attract sufficient suppliers to ensure competition. Competitive contracting reduces costs, makes the government procurement process more transparent, encourages private sector participation, and allows for more efficient financial management.

Innovation

Procurement managers agreed to combine the needs of all departments into a large single tender. The result was the preparation of a tender for one million tons of coal. The oblast, however, found itself unlikely to have the funds to pay for more than 300,000 tons of coal. As a result, the tender amount was reduced, but the tender required the successful bidder to offer up to an additional 700,000 tons at the same price over the six month period following the first delivery. The Taldy-Korgan City Utility Department prepared bid specifications for prospective bidders, including what type of coal was needed, where it should be delivered, and other such information. This was included in the bid documents distributed to bidders. The tender was advertised in the local media, and letters of invitation were sent to known contractors and prospective bidders to maximize participation. Sealed bids were to be delivered to a tender award committee by a specified date and time, and the advertisements announced the date and time for a mandatory pre-bid conference and for the public opening of the bids. The pre-bid conference was focused on the rights of bidders and provided a forum for bidders to ask oblast and city coal “experts” questions concerning the bid specifications, payment, delivery, and other areas of concern. Two days after the pre-bid conference, bids were delivered to the Procurement Committee, headed by the Vice Mayor of the oblast.

Results

Ten bids were received, ranging from \$12 to \$17 per ton. The bids were opened in a public ceremony on June 19, 1996, which was televised live to demonstrate the transparency of the process. The oblast awarded contracts to four of the lowest bidders; coal delivery under those contracts has already begun. All bidders were reputable suppliers, and the low bidder in fact supported his bid with a bank performance guarantee for 20 percent of the contract price, the first known instance of such a guarantee in Kazakhstan. As a direct result of the competitive process, Taldy-Korgan achieved at least a 50 percent savings over the previous year’s expenditures on coal. If additional coal is purchased at the low bid price, the oblast’s total savings could be in the range of \$4 million to \$5 million. The process demonstrated that given an open and fair tender, enough bids would be received to make the process competitive. Competitive contracting is highly replicable. Necessary skills, such as estimating and producing specifications, are readily available in local government in the CEE and NIS. The principal tools needed to introduce competitive contracting are a well-defined and systematic set of procedures, such as those used in Taldy-Korgan.

Summary

To demonstrate that local government could achieve significant savings over its customary procurement arrangements, the City of Taldy-Korgan carried out a competitive procurement of coal. As a result, Taldy-Korgan achieved at least a 50 percent savings over the previous year’s expenditures on coal.

For more information contact:

**Vitali Branislavovich Lonski,
Deputy Mayor, Taldy-Korgan
Tel. 7-32822-12858
Fax 7-32822-14945**